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## THE YELLOW PINE SITUATION<sup>1</sup>

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It must be evident to everyone here who has kept pace with affairs, even if only casually, that this broad and wealthy land of ours has never seen a year of greater material prosperity than the present one. Abundance and wealth are to be found everywhere. Essentially an agricultural country, the basis of its prosperity is, and doubtless always will be, the products of its soil. Recent reports issued by the government show that this year's increase in the combined yield of the five leading cereals, viz., corn, wheat, oats, barley and rye, amounts to approximately 540,000,000 bushels over last year. The yield per acre and the quality of the crops are better in all cereal growing states than they have been for several years, and everywhere do they exceed the ten-year average.

But prosperity is noticeable also in other directions—the healthy condition of the iron and steel industry, for instance, which in volume of business and earnings bids well to equal, if not eclipse, 1907, the best year in its history; and of the railroads as evidenced by their heavy expenditures month after month for maintenance, structures and equipment—expenditures far in excess of those made in the last several years. The reports of railroad earnings are highly satisfactory, and in the daily press now one can read nearly every day of large orders being placed for rails, engines and cars. Factories, foundries and mills everywhere, hitherto running indifferently, have resumed normal operations as a direct or indirect result of the country's abundance. Finances are in a good way and money is exceedingly cheap and plentiful. The tendency to harass large corporations with adverse legislation seems to have passed, and there are no momentous political questions to disturb the present satisfactory pose of business; the tariff is settled and out of the way and will remain out of the way for the next ten or twelve years; everybody seems to be satisfied with the sched-

<sup>1</sup>Reprinted from the St. Louis "Lumberman," September 15, 1909.

ules adopted and by this time the subject has almost ceased to be a topic of current discussion.

*Average Business But Unsatisfactory Price*

Under conditions so prosperous there is bound to be an average amount of business transacted in the United States, and naturally, there must be at least an average amount of lumber used. But what do we find? Instead of marketing our product with the ease warranted by the prevailing normal and healthy condition of business and at a price that will net us a fair return on our investments, we are now and for the last two years have been, selling the products of our forests at an appallingly demoralized price—a price wholly unprofitable. There are, of course, reasons for this. But it does seem strange that a business the size of ours, ranking as it does, fourth among the industries of the country, it does seem strange that it alone, amid all this general prosperity, should continue in its demoralization and with such scant hope of improvement. There are only two other industries that occupy about the same unenviable position, namely, the coal mining and cement industries, and it is interesting to note that in each case the same basic principle is involved.

Each succeeding year brings an increase in the crops of the country and each succeeding year brings also an increase in prices for farm products. At no time in the business history of the country has the farmer received more for his crops and his live stock than he is receiving to-day. His wealth and the purchasing power of his products have multiplied amazingly in the last ten or fifteen years. The following story which I saw in a western newspaper recently, strikingly illustrates this fact: A farmer bought a wagon in 1894 for \$60.00. Recently he needed a new wagon and went to the same dealer, who priced him the same kind of a wagon at \$70.00. The farmer objected to the extra \$10.00 and demanded a reason. The merchant reflected a moment and then said he would sell him on the same terms as the first one. "You paid for the one you bought in '94 in corn, and if I remember correctly, you brought me 600 bushels of corn at ten cents a bushel. Now, you bring me 600 bushels of corn." "Well, say, hold on," began the farmer. "But," interrupted the dealer, "your wife can select a \$125.00 surrey; you can have the best self-binder in the store,

worth \$125.00, then you can have an \$80.00 kitchen range and \$20.00 worth of kitchen furniture, all for 600 bushels of corn. The wagon at \$70.00 and the other items foot up to \$420.00. Six hundred bushels of corn at seventy cents a bushel amount to \$420.00." The farmer was stunned, and without saying another word about monopolies or the tariff, counted out \$70.00 for the wagon. The value of the farmer's corn increased seven-fold in fifteen years, but how has the lumberman's product fared in the same period, and why?

### *Fundamental Law of Trade Involved*

I think we all know and understand the one and the only cause for the impotent condition of our business, a cause so essential that it is of itself sufficient. In a word, the difficulty involves directly the fundamental law of trade—the law of supply and demand as applied to the lumber industry. There is, and has for several years been, an over-production, and lumbermen have not yet learned to fit their output to the demands and needs of the country. The manufacturers in the South fixed their capacity under the extremely prosperous conditions that prevailed two or three years ago—conditions that in all probability we cannot expect again in this country for a long time to come.

Good times have come, but the present prosperity is normal. I use the word "normal" in a comparative sense, having in mind the almost unnaturally flourishing conditions a few years since. It will be some time before users of material, purchasers of equipment, constructors of railroads, and builders of various kinds of enterprises will expand their business to the extent they did in the years 1905, 1906 and 1907. There is everywhere a greater conservatism in business to-day, a tendency to stay closer to shore. The financial upheaval of the latter part of 1907 has made the general business public apprehensive and afraid of owing too much money. The consumption of lumber is directly affected after such conditions. The country's wealth increases; economic conditions are stable; business generally is good; the demand for lumber in conformity with all of these, is average, no more nor less than it can reasonably be expected to be, while the production of lumber, fixed at a time of extraordinary demand, continues at the same enormous rate. In other words, the manufacturer right now is

capable of making more lumber than the country can use, and he is making it.

The extent to which the consumption of lumber has been affected in recent years by revolutionary methods of building has not, I think, been given the serious consideration it deserves, in fact, it seems to me that manufacturers of lumber have never looked upon the subject as one of any particular importance. In connection with the question of production, however, it is becoming a factor of such significance that it cannot much longer be overlooked. The tendency in all branches of construction and in most lines of manufacture is to find substitutes for wood. Concrete and steel are coming more and more into use every year, taking the place, wholly or in part, that which has heretofore called for lumber.

#### *Substitutes for Lumber*

Nearly all modern freight cars are being built with steel under frames, gondolas and coal cars being made entirely of steel. The new passenger equipment now being built for many of our largest railways is entirely of steel construction. Bridges heretofore built entirely of timbers are now being made of concrete, and depot platforms are being constructed of gravel or concrete. The largest street car plant in the country, located in St. Louis, has recently begun building street cars of steel construction throughout, except the floors, which are concrete. A large box manufacturer recently made the statement that boxes made of wood pulp are eliminating the use of six million feet of lumber every year in the city of Chicago alone.

Five or six years ago large buildings of the slow combustion type called for from one to five million feet of timbers and factory flooring each. All such structures are now being built of reinforced concrete. Treated pine pole ties and ties made of inferior species of various woods are being used to such an extent by the railroads in recent years that the use of sawn pine ties is decreasing at a surprising rate. While not, in fact, a substitute, the use of such treated ties has the same effect as a substitute, considering that most of the inferior woods of which these ties are made had little or no commercial value until so used.

It is only natural that when the demand for such material ceases, the mills that formerly catered to that class of trade will

turn their attention to the manufacture of yard stock. The advent of the steel freight car dispenses with the use of car sills, and the sills made hereafter will be used only in repairing old cars. There is no way of arriving at the actual amount of lumber that these various substitutes are replacing, but it must surely run into the hundreds of millions of feet per annum. I do not mean to convey by this that I think less lumber will be consumed hereafter; on the contrary, I think the country will use as much as it ever has, but there can be no doubt that the per capita consumption on account of these substitutes will be less. However, the point I wish to make is this: When the customary uses for a commercial wood of any species or for lumber of any kind fall off or cease altogether, the manufacturer of that kind of lumber will naturally be compelled to divert his product into other channels—another tendency to overproduction. During these times of revolutionary building methods, and while the production of yard stock is thus constantly increasing, it is going to be necessary for us all to go a little easy so as to allow the general output of lumber to fit and adjust itself to the requirements and demands of the country as we now find them.

### *Overproduction the Problem*

But no matter what the reasons, we find that overproduction exists as the one condition with which we must cope if we expect to ever attain prosperity in our business. We cannot look for a remedy in the demand, for the reason that it will be many years until the country will have grown to the point where it can consume under normal conditions the amount of lumber that the mills in the South are capable of producing to-day. I firmly believe that if the manufacturers would operate their plants to their fullest capacity for eight months, they could produce as much lumber in that time as the country would use in a year. It is, therefore, clearly to the best interests of the entire industry if each and every manufacturer will, for himself and in his own way, reduce his output to conform to the demand. For the past two years the average price of lumber has hovered around \$12.00 per thousand. Let us take, for example, a manufacturer producing 20,000,000 feet a year and consider his interests under a policy of curtailment should he consider the advisability of making less lumber. At the prevailing price of \$12.00 during the past two

years, he would receive for his annual cut of 20,000,000 feet, \$240,000.00. Let us say that this manufacturer decides to make 30 per cent less lumber, or 14,000,000 feet instead of 20,000,000. Under a curtailment to that extent, if generally applied throughout the lumber producing territory, lumber would, without difficulty, bring an average price of \$17.00 per thousand. At \$17.00, then, this manufacturer would receive just as much money for his 14,000,000 feet (\$240,000.00), as 20,000,000 feet would have netted him at \$12.00. Besides, he has 6,000,000 feet more standing timber left in his forests than he would otherwise have had.

#### *Comparison of Costs*

Against this, some one will, no doubt, advance the argument that under curtailment it costs more per thousand feet to produce lumber, for the reason that the fixed charges remain practically the same as when running full time. That is true. But let us see how it works out in the operations of the manufacture we have taken as an illustration. With an output of 20,000,000 feet per annum let us say that the cost of labor in the production of this lumber amounts to \$6.00 per thousand, and we will grant that labor will cost him \$7.00 per thousand while making only 14,000,000 feet. But, it must be remembered, he is making 6,000,000 feet less lumber, which at the cost of \$6.00 per thousand for labor, saves him on his pay rolls \$36,000.00 by the end of the year. Now, then, since the cost of his labor while producing only 14,000,000 feet has increased \$1.00 per thousand, he loses on that account \$14,000.00 on his year's cut; but even so, this loss being offset by the \$36,000.00 which he saved on his pay rolls by reason of having made 6,000,000 feet less lumber, still leaves him \$22,000.00 ahead; that is, he has saved himself the outlay of that much money on labor. Besides he has standing in his forests the 6,000,000 feet of timber that he has saved. This, at \$4.00 per thousand—which it would cost to replace it—would amount to \$24,000.00. Thus, it can be seen that the total saving—on labor \$22,000.00 and on timber \$24,000.00—would be \$46,000.00 on his year's operations. But the point is this: He has received just as much money, gross, for the 14,000,000 feet as 20,000,000 feet would have brought him, and, besides, he has done a profitable business.

Instead of cramming every log through the saws that he pos-

sibly could, he has taken his time and made the most of his raw material, using the logs in the tree tops and the defective timber which, at the price of \$12.00, he could possibly not afford to bring in from the woods. One of the greatest public concerns of the day, local and national, is the conservation of the forests. With as many saw mills in operation as there are, there can possibly be no better way of conserving the forests than to use every tree and every log of merchantable size in them; that is, to utilize all of the timber and not waste any of it. But it is impossible to conceive how our forests can be conserved if the production of lumber is so great and the market, as a result, so unprofitable that nothing but the choicest timber can be used and the balance left to waste.